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Legislative Audit Division

State of Montana

Report to the Legislature

March 2001

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2000

Montana Historical Society

Montana Heritage Preservation and Development Commission
Montana Lewis and Clark Bicentennial Commission

This report contains 11 recommendations for improving Historical Society, Heritage Commission, and Bicentennial Commission operations. Items addressed in the report relate to:

- Complying with federal regulations.
- Seeking legislation to clarify appropriateness of honorarium payments.
- Paying travel costs in accordance with state law.
- Establishing a historic records network.
- Conducting an artifact inventory.
- Processing payroll on the Statewide Accounting, Budgeting, and Human Resources System.
- Reporting and accounting for barter transactions.

This report also contains a disclosure issue related to an artifact barter.

Direct comments/inquiries to:
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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
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March 2001

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our financial-compliance audit of the Montana Historical Society, including the Montana Heritage Preservation and Development Commission and the Montana Lewis and Clark Bicentennial Commission, for the two fiscal years ended June 30, 2000. Included in this report are 11 recommendations to the Historical Society, Heritage Commission, and Bicentennial Commission to improve operations for associated programs.

The written responses to the audit recommendations are included at the end of the audit report. We thank the Historical Society, Heritage Commission, Bicentennial Commission, and their staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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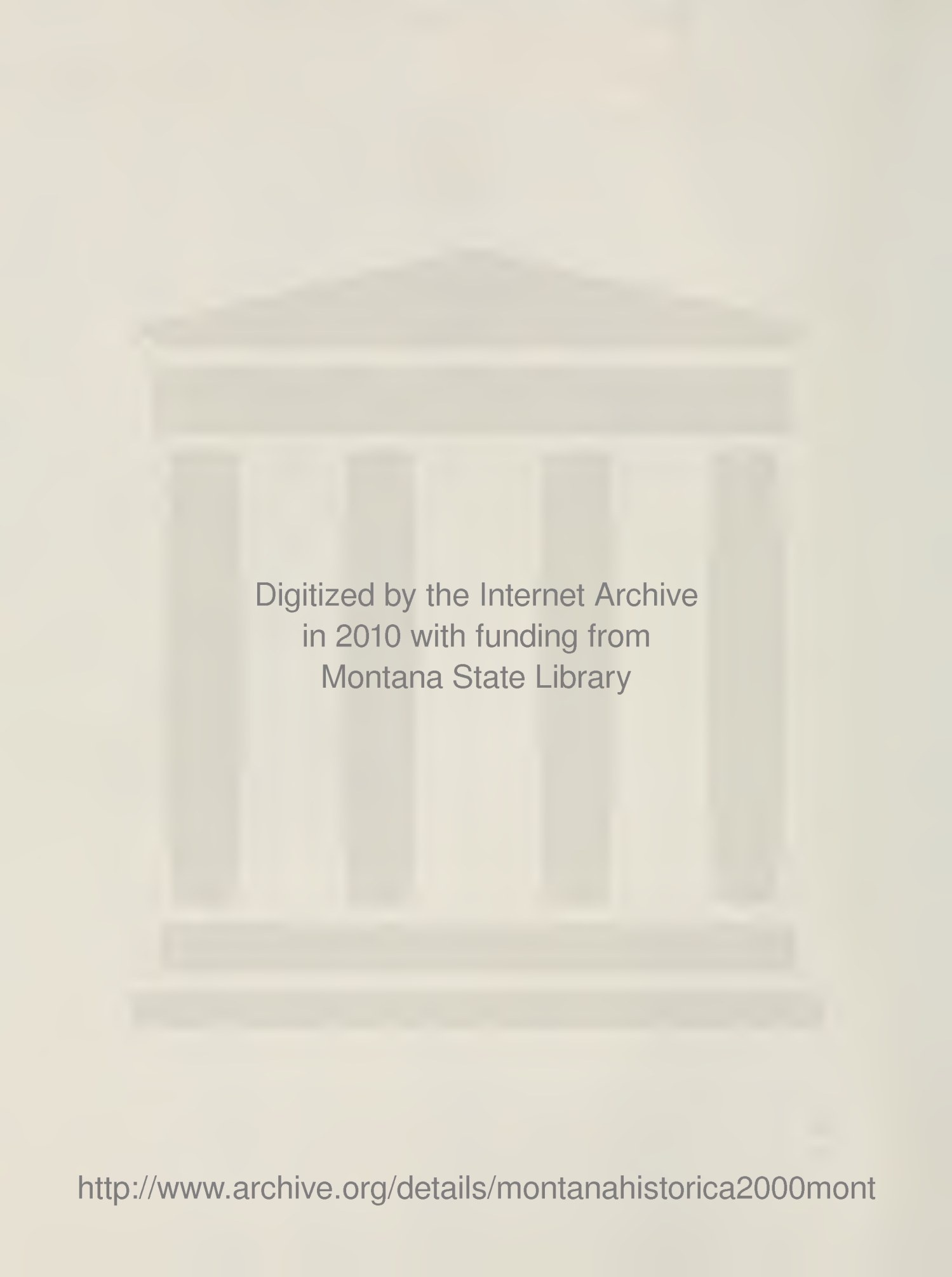
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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2000

Montana Historical Society

Montana Heritage Preservation and Development Commission
Montana Lewis and Clark Bicentennial Commission

Members of the audit staff involved in this audit were Cindy S. Jorgenson, Hollie Kirschman, and Paul J. O'Loughlin.

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Montana Historical Society Board of Trustees

		Term Expires
Thomas Foor, Chair	Missoula	7/1/2003
Ed Henrich, Vice-Chair	Fairmont	7/1/2004
Jean Birch	Great Falls	7/1/2001
Burton Bosch	Havre	7/1/2005
Ana Brenden	Scobey	7/1/2005
Steve Browning	Helena	7/1/2002
Tim Fox	Helena	7/1/2005
William M. Holt	Lolo	7/1/2003
Vicki McCarthy	Billings	7/1/2003
Lawrence (Larry) McRae	Missoula	7/1/2001
Robert Morgan	Clancy	7/1/2001
Mary Murphy	Bozeman	7/1/2002
Lee Rostad	Martinsdale	7/1/2004
James Utterback	Helena	7/1/2004
Donald Wetzel	Billings	7/1/2002

Montana State Historical Preservation Review Board

		Term Expires
Douglas E. Johnson, Chair	Hamilton	10/1/2002
Steve Aaberg	Billings	10/1/2004
Rafael Chacon	Lolo	10/1/2004
Kathy Doeden	Miles City	10/1/2003
Paul Filicetti	Missoula	10/1/2004
Theo Hugs	Fort Smith	10/1/2002
Rebecca Kallevig	Sidney	10/1/2001
Chris King	Winnett	10/1/2003
Germaine White	Pablo	10/1/2003

Montana Heritage Preservation & Development Commission

		Term Expires
Jeanette McKee, Chair	Hamilton	5/23/2002
F. W. Howell, Vice-Chair	West Yellowstone	5/23/2003
Senator Dale Mahlum	Missoula	12/31/2002
Representative Diane Rice	Harrison	12/31/2002
Maureen Averill	Bigfork	5/23/2002
John Lawton	Great Falls	5/23/2001
Mary Oliver	Ennis	5/23/2003
Jeffrey Safford	Bozeman	5/23/2002
Rosana Skelton	Helena	5/23/2001

Arnie Olsen, Director, Historical Society
Jeff Hagener, Director, Department of Fish, Wildlife & Parks

Appointed and Administrative Officials

Montana Lewis & Clark Bicentennial Commission

		Term Expires
Betty Stone, Chair	Glasgow	10/1/2002
Darrell Kipp, Vice-Chair	Browning	10/1/2002
Kathy Doeden	Miles City	10/1/2003
John "Jack" Lepley	Fort Benton	10/1/2003
Darrell Martin	Hays	10/1/2003
Marylin Ryan	Missoula	10/1/2001
Homer Staves	Billings	10/1/2002
Hal Stearns	Missoula	10/1/2001
Curley Youpee	Poplar	10/1/2001

Matthew Cohn, Director, Travel Montana, Department of Commerce

Doug Monger, Administrator, Parks Division, Department of Fish, Wildlife & Parks

Arnie Olsen, Director, Historical Society

Montana Historical Society Administrative Officials

Arnie Olsen	Director Historical Society
Jeff Tiberi	Executive Director Montana Heritage Preservation and Development Commission
Clint Blackwood	Executive Director Montana Lewis and Clark Bicentennial Commission
Sharon McCabe	Manager Centralized Services Division

Montana Historical Society

This report documents the results of our financial-compliance audit of the Montana Historical Society (Society), including the Montana Heritage Preservation and Development Commission (Heritage Commission) and the Montana Lewis & Clark Bicentennial Commission (Bicentennial Commission), for the two fiscal years ended June 30, 2000. The previous audit report contained three recommendations to the Society. The Society implemented all three recommendations.

This report contains 11 recommendations and a disclosure issue. The recommendations address areas where the Society, Heritage Commission, and Bicentennial Commission can improve compliance with federal and state laws and regulations. The disclosure issue is related to an artifact barter.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the presented financial information and the supporting data on the state's accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the responses thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the Heritage Commission work with the Society to:

A. Comply with the cash management provisions of the grant agreement.

B. Resolve the need for repayment of interest with the federal grantor agency . . . . . Page 8

Heritage Commission Response: Concur. See page B-4.

Recommendation #2

We recommend the Heritage Commission work with the Society to establish controls to ensure federal financial and performance reports are submitted in accordance with federal regulations . . . . . Page 9

Heritage Commission Response: Concur. See page B-4.

Recommendation #3

We recommend the Heritage Commission establish policies and procedures to control its procurement process . . . . . Page 10

Heritage Commission Response: Concur. See page B-4.

Recommendation #4

We recommend the Heritage Commission establish internal controls to ensure:

A. Costs charged to the federal award are allowable.

B. Access to equipment is adequately controlled . . . . . Page 12

Heritage Commission Response: Concur. See page B-4.

Recommendation #5

We recommend the Bicentennial Commission work with the Society to establish controls that facilitate compliance with cash management requirements established in cooperative agreements . . . . . Page 13

Bicentennial Commission Response: Concur. See page B-6.

Recommendation #6

We recommend the Heritage and Bicentennial Commissions work with the Society to:

A. Discontinue paying honorariums to commission members, or

B. Seek legislation to allow the payment of honorariums . . Page 14

Heritage and Bicentennial Commission Response: Concur. See page B-6.

Recommendation #7

We recommend the Bicentennial Commission allow reimbursement to commission members for travel costs in accordance with state law . . . . . Page 15

Bicentennial Commission Response: Concur. See page B-6

Recommendation #8

We recommend the Heritage Commission and the Society take measures to verify the existence of its artifacts in a timely manner . . . . . Page 16

Society and Heritage Commission Response: Concur. See page B-5.

Recommendation #9

We recommend the Society establish a historic records network as required by state law or, if necessary, seek to repeal the law . . . . . Page 17

Society Response: Concur. See page B-3.

Recommendation #10

We recommend the Society work with the Department of Administration to establish alternative methods for allocating leave costs so that employees do not receive multiple paychecks . . . . . Page 18

Society Response: Concur. See page B-3.

Recommendation #11

We recommend the Heritage Commission and the Society:

A. Properly report exchange transactions in accordance with federal regulations.

B. Work with the Department of Administration in order to properly record exchange transactions on the state's accounting records . . . . . Page 19

Society and Heritage Commission Response: Partially Concur. See page B-5.

Introduction

General

We performed a financial-compliance audit of the Montana Historical Society (Society), including the Montana Heritage Preservation and Development Commission (Heritage Commission) and the Montana Lewis & Clark Bicentennial Commission (Bicentennial Commission), for the two fiscal years ended June 30, 2000. The objectives of the audit were to:

1. Determine if the Society, Heritage Commission, and Bicentennial Commission complied with applicable laws and regulations.
2. Make recommendations, if necessary, for improvement in the management and internal controls of the Society, Heritage Commission, and Bicentennial Commission.
3. Determine if the financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2000.
4. Determine the status of the prior audit recommendations.

This report contains 11 recommendations to the Society, Heritage Commission, and the Bicentennial Commission and one disclosure issue. Other areas of concern deemed not to have a significant effect on the successful operations of the Society, Heritage Commission, and Bicentennial Commission are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed the cost of implementing the recommendations contained in this report and determined that it was not significant.

Montana Historical Society Background

The Historical Society of Montana was originally organized under the provisions of an act of the Legislative Assembly of the Territory of Montana in 1865. The Society received its first appropriation from the state of Montana in 1891. "An act to Perpetuate the Historical Society of the State of Montana" approved in 1949 established the Society as an agency of state government. The purpose of the Historical Society is to protect, preserve, and interpret Montana and western American history for the use of the public. The Society conducts its operations in the following programs:

Administration: The administration program provides supervision and coordination for all programs of the Society. Activities include public information, accounting and business management, financial reporting, fund-raising, and security and building management.

Library: This program incorporates three functional sections: the library, the archives, and the photograph archives. The staff is responsible for collecting, organizing and preserving historical photos, books, and other research materials relevant to Montana. The staff also assists the public and the staff of other Society programs in the use of research material.

Museum: The museum collects fine art and historical archeological and ethnological artifacts that pertain to Montana and its adjoining geographic region. In addition to caring for the Society's museum collections, program staff conduct research, produce exhibits, sponsor public programs, answer reference requests from the public and provide technical assistance to other museums. The museum also provides education and tours for the public.

Publications: This program consists of three areas: Montana, The Magazine of Western History, the Montana Historical Society Press, and the Montana Historical Society Museum Store. Montana, The Magazine of Western History assists the Society in fulfilling its statutory mission of preserving Montana history and providing educational outreach. The publications program is responsible for managing the Society's museum store. The museum store operates in response to public demand (primarily through direct mail) to a broad base of people interested in western history. The proceeds from the store support the Montana Historical Society Press. The Montana Historical Society Press publishes books on the history of Montana and the northern plains.

Historic Sites Preservation: This program provides assistance to people in the state to preserve significant historic and prehistoric buildings and sites. Society staff are available to provide advice, assistance, and support to people with these sites in their ownership or care.

The Society also performs certain administrative duties for the Heritage Commission and Bicentennial Commission as provided by the enabling legislation for the commissions. In this capacity, the Society directs and supervises commission budgeting, recordkeeping, reporting and related administrative and clerical functions. The Society also collects and deposits revenue, provides staff, submits reports and budget requests, and distributes required notices, rules or orders on behalf of the commissions. The Director of the Historical Society is responsible for representing the commissions in communications with the Governor.

Heritage Commission Background

The 1997 Legislature established the Heritage Commission for the purpose of acquiring properties, on behalf of the State, which possess outstanding historical value, exceptional qualities worth preserving, are genuinely representative of the State's culture and history, and demonstrate the ability to become economically self-supporting. In May 1997, the Heritage Commission finalized the purchase of properties in Virginia City and Nevada City. The purchase included numerous buildings, hotels, retail operations, theaters, rental homes, one and a half miles of railroad track, a train engine and railroad cars, many old vehicles, and thousands of artifacts. Since the purchase, the Heritage Commission has operated these properties as an open-air museum. By law, the Heritage Commission is attached to the Historical Society for administrative purposes.

Lewis and Clark Bicentennial Commission Background

The 1997 Legislature established the Bicentennial Commission to coordinate and promote Montana's bicentennial commemoration of the Lewis and Clark Expedition and the importance of the roles played by Montana's Indian people to the Lewis and Clark Expedition. The commission may cooperate with national, regional, statewide, and local events promoting the bicentennial; plan and coordinate events; engage in fund-raising activities, and promote public education concerning the Lewis and Clark Expedition and the history and culture of Montana's Indian people at the time of the Lewis and Clark Expedition. By law, the Bicentennial Commission is administratively attached to the Historical Society. Its existence terminates December 31, 2007.

Prior Audit Recommendations

Prior Audit Recommendations

The previous audit report for the two fiscal years ended June 30, 1998, contained three recommendations regarding accommodations tax transfer, asset security, and Heritage Commission rules. All three recommendations were implemented.

Heritage Commission Federal Award

During fiscal year 1999-00, the Heritage Commission received a federal award of $1 million for historic preservation activities at Virginia City including construction, improvement, and repair or replacement of physical facilities. We reviewed the Heritage Commission's compliance with federal regulations applicable to the award. The following paragraphs outline instances where the Heritage Commission did not fully comply with federal regulations.

Cash Management

Federal regulations and the grant agreement signed by the Heritage Commission require recipients of federal funds to ensure minimal time elapses between the request for and use of federal funds. These regulations also require recipients to remit any interest earned on advances in excess of $100 to the federal grantor agency.

Based on our review of the accounting records, the Heritage Commission received the entire $1 million for the historic preservation grant in October 1999. At that time, the funds were deposited in the state treasury. The Heritage Commission incurred no expenditures against this award until May 2000. By June 30, 2000, expenditures incurred under the award were $173,782 and Society personnel properly recorded the $829,218 in unspent funds as deferred revenue on the state's accounting records.

State law does not provide the Heritage Commission with the authority to separately invest its funds through the Board of Investments. As such, the federal funds were included in the state treasury's investments. All interest earned on state treasury investments is paid to the General Fund. We estimate the General Fund received $35,799 in interest earnings during fiscal year 1999-00 as a result of the deposit of these federal funds. Federal regulations require this amount be returned to the federal grantor agency. We did not estimate the interest earned by the state treasury on these funds since June 30, 2000.

Heritage Commission personnel were unaware that federal regulations prohibit the state from retaining interest earned on advances for this award. Society personnel indicated, and federal officials confirmed, the Society did not request the advance prior to

its receipt. Federal officials indicated to us compliance with cash management requirements is not critical for this grant, even though it is required by the grant agreement.

If the cash management requirements related to this grant are not important to the federal government, the Heritage Commission should request the federal grantor agency to amend the grant agreement so that it reflects the grantor agency's intent in relation to cash management. If that is not possible, the Heritage Commission should work with the Society to establish cash draw procedures which minimize the amount of time that elapses between the receipt of an advance and the payment of the related expenditures as is required by the grant agreement signed by the commission. This will involve working with the federal grantor agency to prevent the receipt of advances not initiated by the Heritage Commission.

Recommendation #1

We recommend the Heritage Commission work with the Society to:

A. Comply with the cash management provisions of the grant agreement.

B. Resolve the need for repayment of interest with the federal grantor agency.

Federal Reporting

Federal regulations require recipients of historical preservation federal awards to submit regular financial and performance reports. The following paragraphs identify instances where the Heritage Commission did not comply with reporting requirements.

- Since the Heritage Commission received a cash advance under its historic preservation grant, it is required to submit quarterly financial reports which outline the amount of the advance and the amount of disbursements made. The financial reports are due to the federal grantor agency 15 days following the end of

each quarter. Heritage Commission personnel indicated they were unaware that financial reports were required for this award.

- Performance reports are intended to provide the federal grantor agency with a comparison of actual accomplishments to the goals and objectives established for the award. The performance reports are required to be submitted by December 31 each year. Heritage Commission personnel indicated that while they were aware of the need to submit a performance report, they were unaware of the deadline for submission.

Heritage Commission personnel should familiarize themselves with federal reporting requirements and establish controls to ensure federal financial and performance reports are submitted to the federal grantor agency in a timely manner.

Recommendation #2
We recommend the Heritage Commission work with the Society to establish controls to ensure federal financial and performance reports are submitted in accordance with federal regulations.

Procurement

Federal regulations require award recipients to maintain internal control to provide reasonable assurance that the recipient is managing the award in compliance with regulations and provisions of the grant agreement. In addition, policies and procedures applicable to procurement of property and services must be consistently applied to purchases from both federal and non-federal funds. Appropriate control over the procurement process can prevent a recipient from incurring unnecessary, excessive, or unallowable costs.

The Heritage Commission is allowed to purchase equipment and materials necessary for historic preservation activities under this federal award. Approximately 77 percent of the $173,782 in

expenditures incurred under the grant award in fiscal year 1999-00 were for the purchase of major and minor equipment, construction materials and supplies, and for services such as vehicle repair. Although the Heritage Commission is specifically exempted from following the state procurement policies and procedures established by the Department of Administration, the Commission should establish its own policies and procedures for purchasing equipment, supplies and other materials as required by federal regulation. During the audit, we noted inconsistencies in the methods used for procuring property and services. For example, the Heritage Commission received bids for some services, but not others. In some instances, purchase orders were used, but in others the purchase was made at a store by an employee or the contractor. Heritage Commission personnel confirmed that no procurement policies and procedures are in place to govern its activity.

Recommendation #3
We recommend the Heritage Commission establish policies and procedures to control its procurement process.

Allowable Costs

The Office of Management and Budget (OMB) Circular A-133 requires the Heritage Commission to establish controls to ensure costs charged to federal awards are allowable. OMB Circular A-87 provides the Heritage Commission with the criteria to use in determining allowability. To be allowable, costs must be necessary and reasonable for the proper and efficient performance and administration of the federal award and be allocable to the federal award. A cost is allocable to the federal award if it is charged to the award according to the relative benefit received.

During fiscal year 1999-00, the Heritage Commission charged $135,218 to the federal award for equipment, construction materials, supplies, and services related to the equipment purchases, including vehicle repair. We reviewed the commission's operating procedures

to determine whether controls were in place to ensure costs were allowable in accordance with federal regulations. We identified a lack of control in this area. A lack of control increases the risk that unallowable costs were incurred. As a result, we reviewed costs charged to this federal award. The following paragraphs outline control concerns and questioned costs identified during the audit.

- In June 2000, the Heritage Commission purchased embroidered hats for $250. Based on review of the support for the purchase and discussion with Heritage Commission personnel, we do not believe this purchase was necessary for restoration work. As such, we question the $250 charged to the federal award.

- The grant agreement requires the Heritage Commission to provide the federal grantor agency with photos documenting the progress of the restoration work. During the audit, we identified five cameras charged to the federal award at a cost of $477. Heritage Commission personnel indicated additional cameras had to be purchased because the original cameras were not equipped for slides. We question the $477 charged to the federal award.

- According to Heritage Commission personnel, equipment and vehicles purchased by the federal award are used for both state and federal restoration projects. The Heritage Commission has not established control to allocate these purchases or the related vehicle maintenance costs among the projects according to the relative benefit received. Heritage Commission personnel estimate the restoration crew works approximately 90 percent of its time on federal projects and 10 percent on state projects. As such, the federal award should be charged for only 90 percent of the equipment and maintenance costs. We question $13,409 charged to the federal award.

- The Heritage Commission has not maintained a listing of equipment purchased for the Virginia City restoration project or established procedures for assigning employee responsibility for the equipment. Restoration crew members are issued equipment for project purposes. Items not directly issued to crew members are stored at a central facility. Crew members may access them on an as-needed basis. Heritage Commission personnel also indicated that volunteers are involved in the restoration work and have access to the equipment needed to perform assigned restoration activities. A lack of control over access to the equipment increases the risk of theft or loss.

According to Heritage Commission personnel, a contracted individual who specializes in restoration work was responsible for oversight of the federal projects. This individual works part-time at Virginia City and part-time as a National Park Service employee. Heritage Commission personnel allowed this individual to make purchases on their behalf and relied on that individual to determine whether costs were allowable under the grant. We believe oversight and monitoring of grant activities is the responsibility of the Heritage Commission. While it may be reasonable for the Heritage Commission to contract with outside parties for oversight of the federal projects, commission management is ultimately responsible for ensuring compliance with the federal regulations applicable to the federal award.

Recommendation #4
We recommend the Heritage Commission establish internal controls to ensure:

A. Costs charged to the federal award are allowable.

B. Access to equipment is adequately controlled.

Bicentennial Commission Cash Management

In fiscal year 1999-00, the Bicentennial Commission entered into a renewable cooperative agreement with the National Park Service. The purpose of the agreement is to further the development, operation, maintenance, interpretation, and protection of the Lewis and Clark National Historic Trail and to coordinate and facilitate activities and projects associated with the bicentennial observance of the Lewis and Clark Expedition. The Bicentennial Commission in turn contracted with several other parties for the completion of the work under this agreement.

The cooperative agreement specifies that cash draws under this agreement are to be made on a reimbursement arrangement upon presentation of a written invoice. Based on review of the accounting records, we determined the Bicentennial Commission received the

entire $20,000 provided for in the agreement in October 1999, at which time the funds were placed in the state treasury. The Bicentennial Commission incurred no expenditures under this agreement until June 2000, at which time the Bicentennial Commission received and paid a bill from its contractors. The Bicentennial Commission is not in compliance with the provisions of the cooperative agreement related to cash management.

Bicentennial Commission personnel indicated they requested the funds in October 1999 because they received indication from the contractors that the work was complete. The Bicentennial Commission should establish procedures to ensure federal funds are requested as required by the cooperative agreement.

Recommendation #5
We recommend the Bicentennial Commission work with the Society to establish controls that facilitate compliance with cash management requirements established in cooperative agreements.

Honorariums

A member of a board or commission designated by law as quasi-judicial is entitled to receive $50 for each day the member is actually and necessarily engaged in the performance of duties. The Heritage and Bicentennial Commissions provide this honorarium to their commission members. In fiscal year 1999-00, the Heritage Commission and Bicentennial Commission incurred honorarium expenditures of $1,400 and $1,000, respectively. The Heritage and Bicentennial Commissions are established and their duties outlined in sections 22-3-1002 and 2-15-150, MCA, respectively. These laws do not designate the commissions as quasi-judicial, and as such, commission members are not by law entitled to honorariums.

According to Heritage and Bicentennial Commission personnel, the commission members have decision making authority and are not intended to act in an advisory capacity. We believe Heritage and

Bicentennial Commission personnel should either discontinue the payment of honorariums to commission members or seek legislation to provide for the payments.

Recommendation #6
We recommend the Heritage and Bicentennial Commissions work with the Society to:

A. Discontinue paying honorariums to commission members, or

B. Seek legislation to allow the payment of honorariums.

Bicentennial Commission Member Travel

Section 2-18-501, MCA, requires the Bicentennial Commission to reimburse its appointed members for meals, lodging, and reasonable transportation expenses while engaged in official state business in a travel capacity. During our audit, we determined that commission members were not reimbursed for travel costs incurred as a result of participating in out-of-state conferences in their capacity as commission members. Due to budget constraints, the Bicentennial Commission voted to reimburse members participating in these conferences for the registration fees and up to $100 in travel expenses. Society and Bicentennial Commission personnel indicated that in many instances the commission members choose to pay their own travel expenses. Due to a lack of documentation resulting from commission members not submitting claims for reimbursement, we were unable to determine the extent of travel reimbursement not paid to commission members.

In 37 Op. Att'y Gen. 172, the Attorney General addressed the legality of mileage reimbursements made at a lower rate than provided by state law. The Attorney General concluded the language of the statute governing the payments was mandatory, not optional. We believe the precedent established in this opinion also applies to the payment of travel costs. The Bicentennial

Commission has a legal obligation to reimburse its members for travel costs in accordance with state law. Nothing, however, prohibits the commission members from returning the reimbursements to the commission in the form of donations.

Recommendation #7
We recommend the Bicentennial Commission allow reimbursement to commission members for travel costs in accordance with state law.

Verification of Artifact Existence

In May 1997, the state of Montana purchased real and personal property located in Virginia City and Nevada City from its previous owner. Heritage Commission personnel estimate the state received approximately 500,000 historic artifacts through this purchase. The artifacts had an estimated fair market value at the time of purchase of approximately $5,000,000.

During our prior audit, we inquired about the status of procedures established to ensure the state received possession of all of the artifacts purchased. At that time, Heritage Commission and Society personnel indicated there were insufficient resources to complete a comprehensive inventory of the artifacts. During our audit, we determined that limited inventory and curatorial procedures were in process. The Heritage Commission employed a curator and museum technician, as well as interns, for the purposes of identifying, restoring, and cataloguing the artifacts. Heritage Commission personnel estimate 2,000 artifacts have been inventoried to date, which includes all artifacts displayed in buildings used by concessionaires. In addition, Heritage Commission personnel prepared a video record of the artifacts contained in Virginia and Nevada Cities for the purposes of artifact identification in the event of theft or loss.

While is it not standard practice to conduct an annual inventory of a museum collection, it is standard practice for the items in a

collection to be placed into inventory shortly after acquisition. For example, Society policy is to enter new accessions into the inventory immediately upon receipt.

We believe a timely verification of the artifacts is necessary to document the existence of the artifacts. The Society has appraisal lists which provide a description and value for most of the artifacts received in the purchase. We believe using these lists to randomly verify the existence of the most valuable artifacts is a cost-effective method for ensuring the state received what it purchased We recommend the Heritage Commission take measures to verify the existence of its artifacts in a more timely manner.

Recommendation #8
We recommend the Heritage Commission and the Society take measures to verify the existence of its artifacts in a timely manner.

Historic Records Network

Section 22-3-211, MCA, requires the trustees of the Society to establish and coordinate the administration of a historic records network. Section 22-3-102, MCA, defines a historic records network as an agreement between the Society and the Montana University System to facilitate exchange and cooperation in the use, acquisition, and preservation of historic records. During the audit, Society personnel indicated they have not established the network because funding was not available. Section 22-3-212, MCA, however, indicates the network is to operate within the budgets of the Society and the Montana University System. Society personnel should establish the historic records network as required by state law. If the law is no longer necessary, the Society should introduce legislation to repeal the law.

Recommendation #9
We recommend the Society establish a historic records network as required by state law or, if necessary, seek to repeal the law.

Payroll

The state of Montana implemented the Human Resource Management System (HRMS) in April 1999 as part of the Statewide Accounting, Budgeting, and Human Resources System (SABHRS). With the implementation, Society personnel experienced difficulty processing payroll for employees working in more than one position.

Society personnel learned that HRMS does not allocate leave balances and costs for employees working in more than one position when one paycheck is issued. For leave costs to properly allocate, HRMS has to be configured to issue multiple paychecks. During the audit period, the number of employees receiving more than one paycheck ranged from two to six. The following paragraphs discuss the impact of the Society's decision to issue more than one paycheck. These situations occur any time an agency chooses to issue two or more paychecks to an employee.

- The state is required to withhold state and federal income tax from an employee's paycheck according to the information documented on the employee's Form W-4 and the established withholding rates. HRMS considers each paycheck as belonging to a separate employee and is unable to combine the gross wages from both paychecks when determining tax withholdings. As a result, state payroll withholds less federal and state income tax for these individuals than it should.

- State employees may participate in voluntary withholding programs, such as deferred compensation or flexible spending. The state has a fiduciary responsibility to honor the agreements with employees. Voluntary withholdings are only deducted if gross wages on the first position are sufficient to cover the

withholdings. If gross wages are not sufficient, the withholdings are not made and the state violates its agreement established with the employee.

- When an agency issues more than one paycheck for an employee, HRMS does not allocate the state group insurance benefits among the funding sources tied to the employee's positions. Society personnel must manually calculate the amount of these costs that should be paid by the various funding sources and process a correcting entry on the financial records. When only one paycheck is issued per employee, HRMS is able to split these costs by funding source.

We believe the Society should work with the Department of Administration to establish methods for processing payroll which allows the state of Montana to be in compliance with federal and state withholding requirements and mitigates difficulties encountered related to voluntary withholdings and group insurance for Society employees.

Recommendation #10
We recommend the Society work with the Department of Administration to establish alternative methods for allocating leave costs so that employees do not receive multiple paychecks.

Artifact Barter

The Historical Society Board of Trustees (Board), at the request of the Heritage Commission, approved the barter of artifacts obtained during the purchase of Virginia City and Nevada City properties with a private party in return for historic trusses, windows and the labor related to transporting and installing those items during fiscal year 1998-99. The disclosure issue on page 21 of this audit report discusses concerns we have regarding the legal authority of the Heritage Commission and the Society to enter into barter transactions. We also identified specific instances where the Heritage Commission and the Society can improve compliance with regulations and accounting policies applicable to a barter transaction. The following paragraphs outline our concerns.

Internal Revenue Service Reporting

The Internal Revenue Service (IRS) requires a form 1099-B to be issued for each person exchanging property or services through a barter transaction. The 1099-B shows the value of cash, property, and services received through the barter. Heritage Commission and Society personnel indicated they did not issue a 1099-B to the private party involved in the barter. Heritage Commission personnel were not aware of the requirement to issue a 1099-B. The private party received artifacts valued at $4,077 in exchange for trusses, windows, and labor with a combined value of $6,461. By not issuing a 1099-B to the private party, the Heritage Commission and the Society are not in compliance with IRS regulations.

Accounting Records

While state accounting policy does not provide specific guidance on how to account for barter transactions, it does provide guidance on accounting for sales and purchases of assets. A barter consists of both a sale and a purchase combined in the same transaction. Society personnel did not record the barter transaction on the state's accounting records. As a result, we believe expenditures and revenues are understated by $6,461 on the state's accounting records. The Society should work with the Department of Administration to determine the most appropriate method for recording barter transactions on the state's accounting records.

Recommendation #11
We recommend the Heritage Commission and the Society:

A. Properly report exchange transactions in accordance with federal regulations.

B. Work with the Department of Administration in order to properly record exchange transactions on the state's accounting records.

Artifact Barter

During fiscal year 1998-99, the Historical Society Board of Trustees (Board) approved the barter of artifacts obtained during the purchase of Virginia City and Nevada City properties with a private party in return for historic trusses and windows and the labor related to transporting and installing those items. During the audit, we reviewed the circumstances surrounding the barter. Based on our review, we were unable to confirm whether the Board and the Heritage Commission had legal authority to enter into this transaction. The following paragraphs outline the circumstances surrounding the barter.

The trusses and windows bartered were used by the Heritage Commission in the construction of the roundhouse for its steam engine. The barter originated as a verbal agreement between the private party and Heritage Commission personnel. The Heritage Commission received the trusses, windows, and services prior to approval of the barter on the part of the Board. Sections 22-3-1001 and 1003, MCA, establish the Heritage Commission as the organization responsible for acquiring and managing historic properties on behalf of the state, including Virginia City and Nevada City. The Heritage Commission is a self-governing entity and is attached to the Society for administrative purposes only. While sections 22-3-1001 and 1003, MCA, provide the Heritage Commission with the authority to purchase real and personal property on behalf of the state, no authority is provided for sale or exchange of property.

Chapter 469, Laws of 1997, provided the Society with the appropriation authority to purchase the real and personal property in Virginia City and Nevada City. Society personnel believe the Society is the owner of the property, not the Heritage Commission. As such, they believed it necessary for the Board of Trustees to approve the barter transaction. Section 22-3-107, MCA, specifically provides the Board of Trustees with the authority to sell or exchange artifacts.

Based on review of the supporting documentation, the Society has legal title to the real and personal property in Virginia City and

Nevada City. Most of the property was purchased directly by the Society. The remainder was purchased by the Historical Society Foundation and subsequently donated to the Society. Sections 22-3-1001 and 1003, MCA, however, provided the Society with no authority in relation to the management of the properties.

Based on review of state law and the circumstances surrounding the barter, we believe legislative intent is unclear as it relates to ownership and the authority to dispose of the real and personal property located in Virginia City and Nevada City.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances and Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Historical Society for each of the fiscal years ended June 30, 2000 and 1999. The information contained in these financial schedules is the responsibility of the Society's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the Society's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Montana Historical Society for each of the fiscal years ended June 30, 2000 and 1999, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 30, 2001

HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	General Fund	Special Revenue Fund	Enterprise Fund	Agency Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1999	$ (111,724)	$ 1,303,993	$ 394,860	$ 0	$ 665,279	$ 1,056,838
PROPERTY HELD IN TRUST: July 1, 1999				$ 0		
ADDITIONS						
Budgeted Revenues & Transfers-In	2,000	1,422,179	711,237			
Nonbudgeted Revenues & Transfers-In	281	497,217	36		46,272	97,957
Prior Year Revenues & Transfers-In Adjustments		1,506				
Direct Entries to Fund Balance	1,871,847	505,023				
Additions To Property Held in Trust				2,681		
Total Additions	1,874,128	2,425,925	711,273	2,681	46,272	97,957
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	1,886,401	1,848,725	736,866			
Nonbudgeted Expenditures & Transfers-Out		358,027	80,838		897	12,883
Prior Year Expenditures & Transfers-Out Adjustments	(1,116)	(5,524)			9,501	
Reductions in Property Held in Trust				2,681		
Total Reductions	1,885,285	2,201,228	817,704	2,681	10,398	12,883
FUND BALANCE: June 30, 2000	$ (122,881)	$ 1,528,690	$ 288,429	$ 0	$ 701,153	$ 1,141,912
PROPERTY HELD IN TRUST: June 30, 2000				$ 0		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1998	$ (54,774)	$ 1,447,107	$ 342,274	$ 627,528	$ 888,865
ADDITIONS					
Budgeted Revenues & Transfers-In	500	992,761	695,140		
Nonbudgeted Revenues & Transfers-In	1,759	138,756	263	73,956	173,765
Prior Year Revenues & Transfers-In Adjustments	11	11	11		
Cash Transfers In (Out)	1,488,682	542,591	143		
Total Additions	1,490,952	1,674,119	695,557	73,956	173,765
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	1,548,296	1,732,723	729,590		
Nonbudgeted Expenditures & Transfers-Out		81,855	(77,530)	31,650	5,791
Prior Year Expenditures & Transfers-Out Adjustments	(394)	2,655	(9,089)	4,555	
Total Reductions	1,547,902	1,817,233	642,971	36,205	5,791
FUND BALANCE: June 30, 1999	$ (111,724)	$ 1,303,993	$ 394,860	$ 665,279	$ 1,056,839

This schedule is prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
Taxes	$ 281	$ 571	$ 36			$ 888
Charges for Services	2,000	3,759				5,759
Investment Earnings				$ 46,272	$ 85,257	131,529
Sale of Documents, Merchandise and Property		2,890	657,585			660,475
Rentals, Leases and Royalties		233,508				233,508
Miscellaneous		1,842				1,842
Grants, Contracts, Donations and Abandonments		981,139			12,700	993,839
Other Financing Sources		2,808	53,652			56,460
Federal		694,385				694,385
Total Revenues & Transfers-In	2,281	1,920,902	711,273	46,272	97,957	2,778,685
Less: Nonbudgeted Revenues & Transfers-In	281	497,217	36	46,272	97,957	641,763
Prior Year Revenues & Transfers-In Adjustments		1,506				1,506
Actual Budgeted Revenues & Transfers-In	2,000	1,422,179	711,237	0	0	2,135,416
Estimated Revenues & Transfers-In	2,500	2,586,500	869,000			3,458,000
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (500)	$ (1,164,321)	$ (157,763)	$ 0	$ 0	$ (1,322,584)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	$ (500)	$ (189,241)				$ (189,741)
Federal Indirect Cost Recoveries		(58,000)				(58,000)
Sale of Documents, Merchandise and Property		(7,110)	$ (155,415)			(162,525)
Rentals, Leases and Royalties		113,508	(2,000)			111,508
Grants, Contracts, Donations and Abandonments		(82,666)				(82,666)
Other Financing Sources		(12,192)	(348)			(12,540)
Federal		(928,620)				(928,620)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (500)	$ (1,164,321)	$ (157,763)	$ 0	$ 0	$ (1,322,584)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
Charges for Services	$ 500	$ 36,707				$ 37,207
Investment Earnings	11	11	$ 11	$ 73,956	$ 169,841	243,830
Federal Indirect Cost Recoveries		50,364				50,364
Sale of Documents, Merchandise and Property		242	612,269		3,924	616,435
Rentals, Leases and Royalties		153,912				153,912
Miscellaneous	1,759		263			2,022
Grants, Contracts, Donations and Abandonments		416,508	28,455			444,963
Other Financing Sources		2,291	54,415			56,706
Federal		471,494				471,494
Total Revenues & Transfers-In	2,270	1,131,529	695,413	73,956	173,765	2,076,933
Less: Nonbudgeted Revenues & Transfers-In	1,759	138,756	263	73,956	173,765	388,499
Prior Year Revenues & Transfers-In Adjustments	11	11	11			33
Actual Budgeted Revenues & Transfers-In	500	992,762	695,139	0	0	1,688,401
Estimated Revenues & Transfers-In	2,500	1,337,051	843,857			2,183,408
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (2,000)	$ (344,289)	$ (148,718)	$ 0	$ 0	$ (495,007)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	$ (2,000)	$ (169,668)				$ (171,668)
Investment Earnings		(4,400)				(4,400)
Federal Indirect Cost Recoveries		(4,292)				(4,292)
Sale of Documents, Merchandise and Property		242	$ (147,731)			(147,489)
Rentals, Leases and Royalties		144,412	(2,000)			142,412
Grants, Contracts, Donations and Abandonments		(107,466)	(1)			(107,467)
Other Financing Sources		(12,109)	1,014			(11,095)
Federal		(191,008)				(191,008)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (2,000)	$ (344,289)	$ (148,718)	$ 0	$ 0	$ (495,007)

This schedule is prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT	Program (Subclass) Not Specified	Administration Program	Library Program	Museum Program	Publications	Historical Sites Preservation	Heritage Commission	Lewis & Clark Bicentennial Commission	Non-Budgeted	Total
Personal Services										
Salaries	$ 105,097	$ 465,004	$ 395,922	$ 273,721	$ 250,515	$ 259,630	$ 251,400	$ 51,915	$ 203	$ 2,053,407
Employee Benefits	31,015	116,825	111,636	70,647	71,693	63,825	60,983	11,468	32	538,124
Personal Services	9,612									9,612
Total	145,724	581,829	507,558	344,368	322,208	323,455	312,383	63,383	235	2,601,143
Operating Expenses										
Other Services	77,405	145,870	32,662	33,546	61,730	27,954	124,442	80,554		584,163
Supplies & Materials	17,687	68,386	50,791	35,850	9,639	13,538	157,738	1,032		354,661
Communications	1,176	20,336	10,936	10,977	29,866	11,219	21,895	5,640		112,045
Travel	25,285	42,271	5,053	7,894	18,415	12,758	31,305	13,482		156,463
Rent	1,780	204,502	7,501	2,244	10,677	17,005	6,443	3,877		254,029
Utilities	111				68		11,417			11,596
Repair & Maintenance	541	16,631	8,201	402	446	1,045	43,463			70,729
Other Expenses	128,672	12,316	9,619	4,364	20,115	7,824	12,543	1,802	425	197,680
Goods Purchased for Resale	105				199,724		6,831			206,660
Total	252,762	510,312	124,763	95,277	350,680	91,343	416,077	106,387	425	1,948,026
Equipment & Intangible Assets										
Equipment	1,000	19,930	10,071				36,126			67,127
Total	1,000	19,930	10,071				36,126			67,127
Capital Outlay										
Buildings							24,417			24,417
Other Improvements							50,922			50,922
Total							75,339			75,339
Grants										
From State Sources	50,000							50,000		100,000
From Federal Sources			5,090			72,670				77,760
From Other Sources	1,642									1,642
Total	51,642		5,090			72,670		50,000		179,402
Transfers										
Accounting Entity Transfers	2,810				53,651					56,461
Total	2,810				53,651					56,461
Total Expenditures & Transfers-Out	$ 453,938	$ 1,112,071	$ 647,482	$ 439,645	$ 726,539	$ 487,468	$ 839,925	$ 219,770	$ 660	$ 4,927,498
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund		$ 881,999	$ 583,725	$ 316,804	$ 53,652	$ 49,105				$ 1,885,285
Special Revenue Fund	$ 349,683	230,072	7,898	114,898	(41)	438,363	$ 839,925	$ 219,770	$ 660	2,201,228
Enterprise Fund	80,974		55,859	7,943	672,928					817,704
Expendable Trust Fund	10,398									10,398
Nonexpendable Trust Fund	12,883									12,883
Total Expenditures & Transfers-Out	453,938	1,112,071	647,482	439,645	726,539	487,468	839,925	219,770	660	4,927,498
Less: Nonbudgeted Expenditures & Transfers-Out	445,723	(425)	(136)	1,122	(41)		5,742		660	452,645
Prior Year Expenditures & Transfers-Out Adjustments	8,215	(2,397)	(1,116)	(1,003)		1,500	(2,337)			2,862
Actual Budgeted Expenditures & Transfers-Out	0	1,114,893	648,734	439,526	726,580	485,968	836,520	219,770	0	4,471,991
Budget Authority	0	1,246,620	743,340	473,556	787,130	599,392	2,623,193	320,000	0	6,793,231
Unspent Budget Authority	$ 0	$ 131,727	$ 94,606	$ 34,030	$ 60,550	$ 113,424	$ 1,786,673	$ 100,230	$ 0	$ 2,321,240
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund		$ 19,538	$ 3,393	$ 286		$ 613				$ 23,830
Special Revenue Fund		112,189	78,137	32,670		112,811	$ 1,786,673	$ 100,230		2,222,710
Enterprise Fund			13,076	1,074	$ 60,550					74,700
Unspent Budget Authority	$ 0	$ 131,727	$ 94,606	$ 34,030	$ 60,550	$ 113,424	$ 1,786,673	$ 100,230	$ 0	$ 2,321,240

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

PROGRAM EXPENDITURES & TRANSFERS-OUT	Administration Program	Library Program	Museum Program	Publications	Historical Sites Preservation	Heritage Commission	Lewis & Clark Bicentennial Commission	Total
Personal Services								
Salaries	$ 474,305	$ 380,215	$ 207,609	$ 242,163	$ 283,414	$ 181,683	$ 44,620	$ 1,814,009
Employee Benefits	121,528	106,264	54,292	67,643	72,308	38,414	9,911	470,360
Personal Services-Other				9,136				9,136
Total	595,833	486,479	261,901	318,942	355,722	220,097	54,531	2,293,505
Operating Expenses								
Other Services	172,587	24,631	24,265	79,301	14,117	75,922	6,019	396,842
Supplies & Materials	29,994	26,085	19,455	371	19,287	60,701	(675)	155,218
Communications	20,689	10,098	8,201	36,593	10,593	17,770	2,795	106,739
Travel	26,504	2,570	3,767	7,137	15,488	22,015	12,678	90,159
Rent	172,612	5,899	2,318	12,217	16,012	5,630	3,525	218,213
Utilities				142		15,218		15,360
Repair & Maintenance	25,003	8,887	82	406	953	3,310	224	38,865
Other Expenses	28,212	6,929	1,422	(68,989)	6,447	8,984	1,326	(15,669)
Goods Purchased For Resale				238,361		329		238,690
Total	475,601	85,099	59,510	305,539	82,897	209,879	25,892	1,244,417
Equipment & Intangible Assets								
Equipment	25,000	12,471	153	9,026		325,573		372,223
Total	25,000	12,471	153	9,026		325,573		372,223
Capital Outlay								
Other Improvements						4,138		4,138
Total						4,138		4,138
Grants								
From Federal Sources					79,114			79,114
Total					79,114			79,114
Transfers								
Accounting Entity Transfers	2,291			54,414				56,705
Total	2,291			54,414				56,705
Total Expenditures & Transfers-Out	$ 1,098,725	$ 584,049	$ 321,564	$ 687,921	$ 517,733	$ 759,687	$ 80,423	$ 4,050,102
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	$ 684,527	$ 518,440	$ 271,732	$ 54,415	$ 18,788			$ 1,547,902
Special Revenue Fund	372,202	16,364	46,811	42,801	498,945	$ 759,687	$ 80,423	1,817,233
Enterprise Fund		49,245	3,021	590,705				642,971
Expendable Trust Fund	36,205							36,205
Nonexpendable Trust Fund	5,791							5,791
Total Expenditures & Transfers-Out	1,098,725	584,049	321,564	687,921	517,733	759,687	80,423	4,050,102
Less: Nonbudgeted Expenditures & Transfers-Out	70,317	3,500	8,063	(61,170)	20,440	615		41,765
Prior Year Expenditures & Transfers-Out Adjustments	3,246	(274)	(50)	(4,617)			(577)	(2,272)
Actual Budgeted Expenditures & Transfers-Out	1,025,162	580,823	313,551	753,708	497,293	759,072	81,000	4,010,609
Budget Authority	1,061,552	583,741	420,066	794,329	680,427	1,739,658	81,000	5,360,773
Unspent Budget Authority	$ 36,390	$ 2,918	$ 106,515	$ 40,621	$ 183,134	$ 980,586	$ 0	$ 1,350,164
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	$ 3,444	$ 89	$ 4					$ 3,537
Special Revenue Fund	25,513	1,892	96,181		$ 183,134	$ 980,586		1,287,306
Enterprise Fund	7,433	937	10,330	$ 40,621				59,321
Unspent Budget Authority	$ 36,390	$ 2,918	$ 106,515	$ 40,621	$ 183,134	$ 980,586	$ 0	$ 1,350,164

This schedule is prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

1. Summary of Significant Accounting Policies

Basis of Accounting

The Society uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust, and Fiduciary Funds. In applying the modified accrual basis, the society records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the Society incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Society to record the cost of employees' annual leave and sick leave when used or paid.

The Society uses accrual basis accounting for its Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the society records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the Society receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Accounts are organized in funds according to state law. The Society uses the following funds:

Governmental Funds	**General Fund** - to account for all financial resources except those required to be accounted for in another fund.
	Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Society Special Revenue Funds include federal award programs, the historic sites and signs program, and donations. The Heritage Commission and Bicentennial Commission operations are also accounted for in the Special Revenue Fund.
Proprietary Funds	**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the Society finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Society Enterprise Funds include the publication program, which includes merchandise and magazine sales; Historical Society Press operations; and library and museum photocopy revenue.
Fiduciary Funds	**Trust and Agency Funds** - to account for assets held by the Society in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. The Society records private donations established as trusts, which permit spending of the principal in the Expendable Trust Fund. The Society records private donations which permit spending only earnings from investments in the Nonexpendable Trust Fund. The Society accounts for its bad debt collection activity in the Agency Fund.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The Society's outstanding liabilities exceed the assets the Society has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 1999 and June 30, 2000.

3. Expenditure Program (Sub-Class)

As part of the implementation of a new accounting system in fiscal year 1999-00, state officials determined that a sub-class designation would identify the program to which expenditures should be charged. State officials did not require non-budgeted expenditures transactions to be identified to a sub-class code. The program designations in the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2000 are based on the sub-class designation used when the expenditures were recorded. The accounting system did not require agencies to code non-budgeted accounts with a sub-class code identifying the expenditure program in which the activity occurred.

Non-budgeted activity for which a program was not identified appears in the "Program (Sub-Class) Not Specified" column and non-budgeted activity for which sub-class code "NB" was used appears in the column with the title 'Non-budgeted' on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2000.

The activity appearing on the "Program (Sub-Class) Not Specified" and "Non-budgeted" columns relates to inventory adjustments, revenue and expenditure activity occurring in the trust funds, and the receipt and use of donations revenue.

4. Cash Transfers & Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue Funds in fiscal year 1999-00 include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Similar transactions were reported in the General and Special Revenue Funds as Cash Transfers In during fiscal year 1998-99. The Society receives an allocation of the accommodations tax for the historic sites and signs program as well as for Heritage Commission operations in the Special Revenue Fund. General Fund support is also provided to the Society for its operations.

5. **Scriver Collection**

In April 2000, the Society was the recipient of a collection of western art valued at $14.7 million. The collection was donated to the Society by Lorraine Scriver, wife of the late western artist Robert Scriver. The Scriver collection includes 500 bronzes, paintings, taxidermy, dioramas, carvings, photographs, and western memorabilia. Under an agreement established with Mrs. Scriver, the Society became the owner of the collection. However, the terms of the donation indicate responsibility for its care and display will be shared with the Rocky Mountain Elk Foundation and the Provincial Museum of Alberta.

6. **Related Party Transactions**

The Montana Historical Society Foundation (Foundation), exists to promote, assist, and benefit the operations of the Montana Historical Society and the library, museums, art galleries, and other facilities operated and maintained by the Society. The Foundation may also advise and assist the trustees of the Society regarding fund-raising activities.

Members of the Board of Directors of the Foundation are to include the current president of the Board of Trustees (Board) of the Montana Historical Society or a designated representative from the Board. The Board of Directors may authorize an agent from the Society to enter into contracts on behalf of the Foundation and the director of the Montana Historical Society may be one of the two signatures required on certain checks, orders for payment, or other notices of indebtedness of the Foundation.

In fiscal years 1998-99 and 1999-00, the Society received $70,284 and $161,083, respectively, from the Foundation for support of its programs. The Society did not provide any assistance to the Foundation in return.

Agency Response

MONTANA HISTORICAL SOCIETY
225 North Roberts ❖ P.O. Box 201201 ❖ Helena, MT 59620-1201
❖ (406) 444-2694 ❖ FAX (406) 444-2696 ❖ www.montanahistoricalsociety.org ❖

March 20, 2001

MAR 2 0 2001

Scott A. Seacat, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Re: Montana Historical Society Audit

Dear Scott:

The responses to the audit recommendations for the Montana Historical Society, the Montana Heritage Preservation and Development Commission, and the Lewis and Clark Bicentennial Commission are separated to best reflect the authority and responsibility of the agencies. The Montana Heritage Preservation and Development Commission and the Lewis and Clark Bicentennial Commission are attached to the Montana Historical Society for Administrative purposes only.

MONTANA HISTORICAL SOCIETY

The following recommendations pertain only to the Montana Historical Society:

Recommendation #9
We recommend the Society establish a historic records network as required by state law, or if necessary, seek to repeal the law.

The Society concurs with this recommendation. Currently the Society does aid staff archivists and librarians at the university units in their work of acquiring, cataloguing, processing, microfilming, and preserving historic records, as required by MCA 22-3-211 and 22-3-212. The Society however does not have an official agreement with the University. The Society will establish an official agreement with the university units in order to meet the letter of the law.

Recommendation #10
We recommend the Society work with the Department of Administration to establish alternative methods for allocating leave costs so that employees do not receive multiple paychecks.

The Society concurs with this recommendation, however the Society has been working with the Department of Administration since the implementation of the Human Resource Management System (HRMS) as part of the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) in April 1999.

The audit report states "These situations occur any time an agency chooses to issue two or more paychecks to an employee". The Society does not choose to issue more than one paycheck to an employee. The HRMS system is unable to process one paycheck in certain situations and the Society has no control over this process. Over the last year we have implemented "fixes" to ensure that all but two employees are receiving one paycheck. Until the HRMS portion of SABHRS is fixed by the Department of Administration, the Society is unable to issue these two employees one paycheck.

MONTANA HERITAGE PRESERVATION AND DEVELOPMENT COMMISSION

The following recommendations pertain to the Montana Heritage Preservation and Development Commission:

Recommendation #1

We recommend the Heritage Commission work with the Society to:

A. Comply with the cash management provisions of the grant agreement.

B. Resolve the need for repayment of interest with the federal grantor agency.

The Commission concurs with the recommendation. The Montana Heritage Commission will request the federal grantor agency (National Park Service) to amend the grant agreement so that it reflects the grantor agency's intent in relation to cash management. It is our intention that the revised agreement will address the interest issue raised in the audit. If an agreement cannot be reached in a reasonable time frame, the MHC will request that the legislature pay back interest to the National Park Service with general fund since interest has gone to date to the general fund.

Recommendation #2

We recommend the Heritage Commission work with the Society to establish controls to ensure federal financial and performance reports are submitted in accordance with federal regulations.

The Commission concurs with the recommendation. The Montana Heritage Commission is now up to speed on the reporting requirements and therefore current with all required reports. This duty will be programmed into our Outlook software, which will provide a regular reminder of this requirement.

Recommendation #3

We recommend the Heritage Commission establish policies and procedures to control its procurement process.

The Montana Heritage Commission concurs and agrees that policies and procedures are necessary to conduct business in an efficient and effective manner and will formalize these policies and procedures within the next few months.

Recommendation #4

We recommend the Heritage Commission establish internal controls to ensure:

A. *Costs charged to the federal award are allowable.*
B. *Access to equipment is adequately controlled.*

The Commission concurs with the recommendation. The Montana Heritage Commission will reverse the $250, $477, and $13,409 charges highlighted in Recommendation #4. In addition, other equipment to be purchased in relation to the Preservation Crew will be divided at the 90% state - 10% federal ratio suggested. Tools and equipment assigned to a particular individual worker will be documented and kept on file. The foreman of the Preservation Crew will be asked to develop a management control system for these items. In addition, we will continue the practice of assigning a staff person as the tool checkout clerk when large groups of volunteers work on projects.

MONTANA HISTORICAL SOCIETY AND THE MONTANA HERITAGE PRESERVATION AND DEVELOPMENT COMMISSION

The following recommendations pertain to both the Montana Historical Society and the Montana Heritage Preservation Commission:

Recommendation #8

We recommend the Heritage Commission and the Society take measures to verify the existence of its artifacts in a timely manner.

The Society and the Commission concur in the recommendation. The Montana Heritage Commission will work with the Society to assign the Curator of Collections, the responsibility of completing an inventory of 80% of the value of the collection ($5,000,000 x .80 = $4,000,000) within the next 18 months. In addition, we will establish a statistically sound method to carryout an annual spot-check inventory once per year. We will also ask the Legislative Auditor's Office to review this method before it is adopted. Regular communication between the curators of both the Montana Heritage Commission and the Montana Historical Society will assure that appropriate techniques are utilized.

Recommendation #11

We recommend the Heritage Commission and the Society:

A. *Properly report exchange transactions in accordance with federal regulations.*
B. *Work with the Department of Administration in order to properly record exchange transactions on the state's accounting records.*

The Society and the Commission concur with part of the recommendation. The Montana Heritage Commission will request that a 1099-B be issued for any future barter transactions although such transactions are extremely rare. In addition, the Montana Heritage Commission will work with the Society to find the proper way to record exchange transactions should these occur in the future.

The Society concurs with part A of the recommendation and will issue a 1099-B. However, the Society only partially concurs with Part B of this recommendation and does not agree that expenditures and revenues are understated by $6,461 on the state accounting records. It is our opinion that the Society should only make the adjustments to fixed assets. This opinion is based on state policy and a recommendation by Department of Administration. In the future the Society will continue to work with the Commission and the Department of Administration and verify procedures in writing.

MONTANA BICENTENNIAL COMMISSION

The following recommendations pertain to both the Montana Lewis and Clark Bicentennial Commission:

Recommendation #5

We recommend the Bicentennial Commission work with the Society to establish controls that facilitate compliance with cash management requirements established in cooperative agreements.

The Commissions and the Society concurs with the recommendation. To ensure that the Bicentennial Commission acts in compliance with the cooperative agreement with the NPS, grant reimbursement funds in the future will not be requested of the NPS in advance of receiving the proper invoices(s) verifying work completed and dollar amount to be paid.

Recommendation #7

We recommend the Bicentennial Commission allow reimbursement to commission members for travel costs in accordance with state law.

The Commission concurs with the recommendation. The Bicentennial Commission's policy on travel reimbursement will be amended to come into accordance with state law.

MONTANA BICENTENNIAL COMMISSION AND MONTANA HERITAGE PRESERVATION COMMISSION

The following recommendation pertain to both the Montana Bicentennial Commission and the Montana Heritage Preservation Commission:

Recommendation #6

We recommend the Heritage and Bicentennial Commissions work with the Society to:

A. Discontinue paying honorariums to commission members, or

B. Seek Legislation to allow the payment of honorariums.

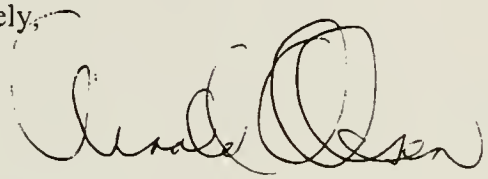
The Commissions and the Society concur with the recommendations.

The Bicentennial Commission has discontinued paying honoraria to commission members. Legislation to allow payment of honoraria will be sought in the 2003 Session as the transmittal deadline has already passed for the 2001 Session.

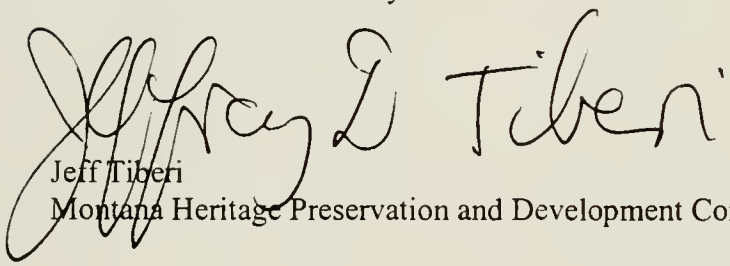
The Montana Heritage Commission will discontinue paying honoraria to Commissioners until or unless we have the legal authority to do so. At the last Commission meeting, the Executive Director proposed joint legislation for the 2003 Session with the Lewis and Clark Bicentennial Commission to regularize this practice.

Thank you for the opportunity to provide you with our responses to the audit.

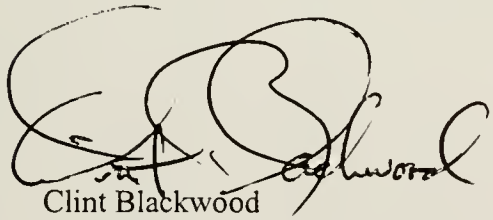
Sincerely,



Arnold Olsen
Director
Montana Historical Society



Jeff Tiberi
Montana Heritage Preservation and Development Commission



Clint Blackwood
Executive Director
Lewis and Clark Bicentennial Commission